

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4928-02  
Bill No.: HB 1673  
Subject: Tobacco Products; Taxation and Revenue - Sales and Use  
Type: Original  
Date: April 25, 2012

Bill Summary: This proposal would increase the current excise tax on cigarettes of 17 cents per pack of 20 cigarettes by 4 cents per pack per year for 4 years until the excise tax on cigarettes reaches 33 cents per pack.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	\$20,400,000	\$40,500,000	\$60,300,000
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$20,400,000</b>	<b>\$40,500,000</b>	<b>\$60,300,000</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Revenue (DOR)** assume this proposal would not have a fiscal impact on the Department, but would increase revenue.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would not result in additional costs or savings to their organization.

The proposal would increase the cigarette tax from 8.5 mills per cigarette (\$0.17 per pack) by an additional 2 mills per cigarette (\$0.04 per pack) each year, beginning with Calendar Year 2013 through Calendar Year 2016, with the new revenues deposited into the General Revenue Fund. BAP calculates the impact of the tax increase by estimating the quantity of packs currently sold, applying the midpoint formula for elasticity to estimate the new quantity of packs, then calculating increased revenues.

Based on the analysis below, BAP estimated this proposal would eventually increase general revenues by \$79.9 million in Calendar Year 2016 (FY 2017).

1. BAP assumes the current retail price of cigarette pack is \$4.50 = \$4.33 price + \$0.17 excise tax. This analysis does not include any additional impact resulting from retail sales taxes.

ASSUMPTION (continued)

2. BAP defined elasticity as the ratio of the change in quantity sold to the change in price. The Centers for Disease Control and Prevention (CDC) estimates the cigarette price elasticity as -0.4, which suggests a 4% drop in sales for each 10% increase in cost. BAP doubled that estimate to take into account the potential loss of sales to contiguous states and/or the internet, based on research by Goolsbee (2004) which suggests a much higher elasticity is possible.
3. BAP used the midpoint-method to estimate the new quantity of cigarette packs taxed as a result of the tax increase.

The BAP calculations indicated additional cigarette tax collections of \$20.4 million for calendar 2013, \$40.5 million for calendar 2014, \$60.3 million for calendar 2015, and \$79.9 million for calendar 2016.

**Oversight** will use the BAP projection of additional revenues; however, Oversight also notes that annual sales of cigarettes have fallen in four of the most recent five years, that sales of cigarettes and other tobacco products could be influenced by factors other than the rate of state taxation, and that projections based on past activity may not be a reliable indication of future activity.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
<b>GENERAL REVENUE FUND</b>			
Revenue increase - cigarette tax	<u>\$20,400,000</u>	<u>\$40,500,000</u>	<u>\$60,300,000</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$20,400,000</u></b>	<b><u>\$40,500,000</u></b>	<b><u>\$60,300,000</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

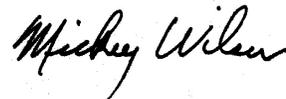
FISCAL DESCRIPTION

This proposal would increase the current excise tax on cigarettes of 17 cents per pack of 20 cigarettes by 4 cents per pack per year for 4 years until the excise tax on cigarettes reaches 31 cents per pack.

This legislation is not federally mandated, would not duplicate any other program, and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of state  
Office of Administration  
    Division of Budget and Planning  
Department of Revenue  
Joint Committee on Administrative Rules



Mickey Wilson, CPA  
Director  
April 25, 2012